MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2016/2017

PEM0024 – ESSENTIALS OF MICROECONOMICS

(All sections / Groups)

06 MARCH 2017
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of NINE (9) printed pages with:
   Section A: Forty (40) multiple choice questions (40 marks)
   Section B: Three (3) structured questions (60 marks)

2. Answer **ALL** questions.

3. Answer **Section A** in the multiple-choice answer sheet and **Section B** in the answer booklet provided.

4. Marks allocations are shown at the end of each question.

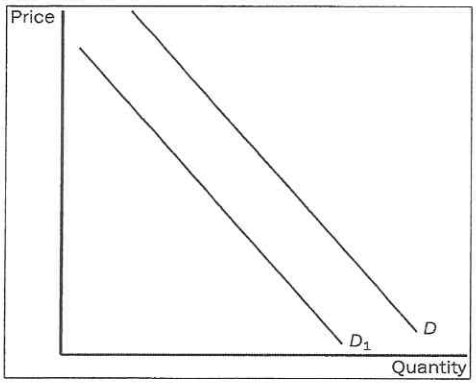
SECTION A: MULTIPLE CHOICE QUESTIONS (40 MARKS)

Instruction: Answer all questions in the multiple choice answer sheet.

1. Which of the following is NOT one of the group of resources?
   A. Land.
   B. Capital.
   C. Labour.
   D. Government.

2. A firm is inefficient when _____.
   A. the production point is inside its PPF.
   B. the output is not produced at maximum with its given resources and technology.
   C. more of one good can be produced without giving up some of another good.
   D. both A and B.

Exhibit 1.



3. In **Exhibit 1**, the shift from *D to* D_1 represent _____.
   A. a decrease in demand.
   B. an increase in demand.
   C. a decrease in quantity demanded.
   D. an increase in quantity demanded.

4. In Exhibit 1, the shift from *D* to D_1 could be caused by _____.
   A. an increase in price.
   B. a technological advance.
   C. a decrease in the price of a substitute.
   D. a decrease in the price of a complement.

5. The relationship between price and quantity supplied is_____.
   A. negative.
   B. positive.
   C. the same as the relationship between price and quantity demanded.
   D. not well understood by economists because laboratory-type experiments have not been conducted.

Continued...

6. If a 7% increase in price causes a 5% decrease in quantity demanded, the price elasticity of demand is _____.
   A. 1.40.
   B. 0.71.
   C. 0.81.
   D. 0.63.

7. For a good that is a necessity, _____.
   A. demand tends to be inelastic.
   B. the law of demand often does not apply.
   C. quantity demanded tends to respond substantially to a change in price.
   D. All of the above are correct.

8. For a particular good, a 2 percent increase in price causes a 12 percent decrease in quantity demanded. Which of the following statements is most likely applicable to this good?
   A. The good is a luxury.
   B. The relevant time horizon is short.
   C. There are no close substitutes for this good.
   D. The market for the good is broadly defined.

9. Budget constraints exist for consumers because _____.
   A. prices and incomes are inversely related.
   B. they have to pay for goods and they have limited incomes.
   C. their utility from consuming goods eventually reaches a maximum level.
   D. even with unlimited incomes they have to pay for each good they consume.

10. A consumer's preferences for right shoes and left shoes can be represented by indifference curves that are _____.
    A. A 180-degree angle.
    B. A 45-degree angle.
    C. A 90-degree angle.
    D. Constant slope.

11. The slope of an indifference curve is _____.
    A. the marginal rate of preference.
    B. the marginal rate of substitution.
    C. the rate of change of consumer's preferences.
    D. always equal to the slope of the budget constraint.

12. As long as a consumer remains on the same indifference curve _____.
    A. she is indifferent among the points on that curve.
    B. she is unable to decide which bundle of goods to choose.
    C. her preferences will not affect the marginal rate of substitution.
    D. she is indifferent to all points which lie on any other indifference curve.

Continued...

13. Suppose a consumer is purchasing Coke and Pizza in quantities such that she is achieving consumer equilibrium. Then the price of Coke decreases. The consumer will likely _____ her consumption of Coke and the marginal utility of Coke will _____ while the total utility from Coke will _____.
    A. increase; increase; increase.
    B. increase; decrease; decrease.
    C. increase; decrease; increase.
    D. decrease; increase; increase.

14. Following are represents the indifferent curve, EXCEPT _____.
    A. do not cross.
    B. are downward sloping.
    C. are bowed in toward the origin.
    D. that are closer to the origin are preferable to indifference curves further from the origin.

15. "Left" gloves and "right" gloves provide a good example of _____.
    A. perfect substitutes.
    B. perfect complements.
    C. positively sloped indifference curves.
    D. negatively sloped indifference curves.

16. An example of an explicit cost of production would be _____.
    A. the cost of forgone labor earnings for an entrepreneur.
    B. lease payments for the land on which a firm's factory stands.
    C. the lost opportunity to invest in capital markets when the money is invested in one's business.
    D. All are correct.

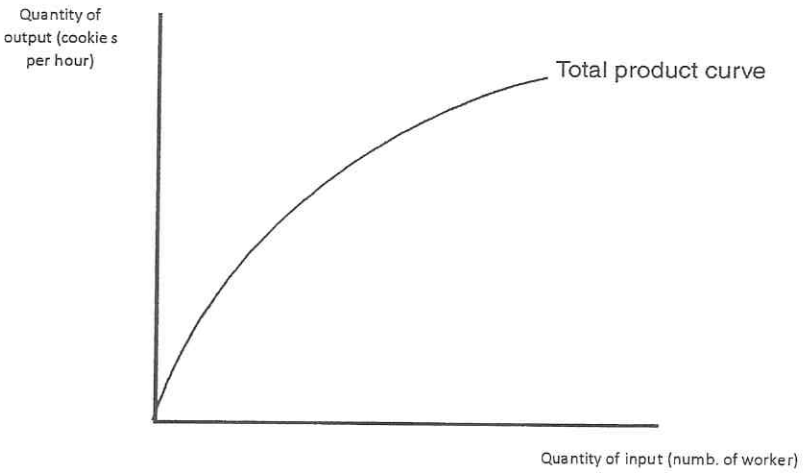
17. The amount of money that a wheat farmer could have earned if he had planted barley instead of wheat is _____.
    A. an implicit cost.
    B. an explicit cost.
    C. an accounting cost.
    D. forgone accounting profit.

18. Accounting profit is equal to _____.
    A. marginal revenue minus marginal cost..
    B. total revenue minus the explicit cost of producing goods and services.
    C. total revenue minus the opportunity cost of producing goods and services.
    D. average revenue minus the average cost of producing the last unit of a good or service.

19. Which of the following expressions is correct?
    A. economic profit = total revenue - explicit costs.
    B. economic profit = total revenue - implicit costs.
    C. accounting profit = total revenue - explicit costs.
    D. Both A and B are correct.

Continued...

Exhibit 2: A production function for a firm that produces cookies



20. In **Exhibit 2**, as the number of workers increases, _____.
    A. total output decreases.
    B. total output increases, but at a decreasing rate.
    C. marginal product increases at an increasing rate.
    D. marginal product increases, but at a decreasing rate.

21. With regard to cookie production from the Exhibit 2, figure implies _____.
    A. decreasing cost of cookie production.
    B. increasing marginal product of workers.
    C. diminishing marginal product of workers.
    D. diminishing marginal cost of cookie production.

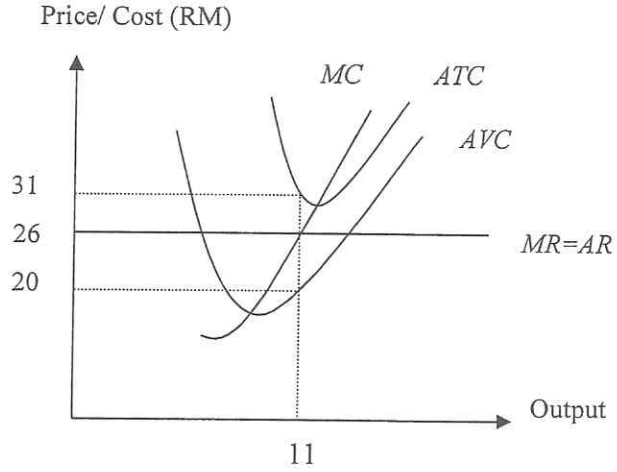
22. When a firm has little ability to influence market prices it is said to be in _____.
    A. a power market.
    B. a strategic market.
    C. a competitive market.
    D. none of the above.

23. For a firm in a perfectly competitive market, the price of the good is always _____.
    A. equal to total revenue.
    B. equal to marginal revenue.
    C. greater than average revenue.
    D. equal to the firm's efficient scale of output.

24. A competitive firm might choose to set its price below the market price, because _____.
    A. this would result in higher profits.
    B. this would result in lower total costs.
    C. this would result in higher average revenue.
    D. none of the above.

Continued...

Exhibit 3: A perfectly competitive firm in the short-run.



25. Refer to **Exhibit 3**. In equilibrium, what is the firm's average fixed cost?
    A. RM6.
    B. RM10.
    C. RM11.
    D. RM20.

26. Refer to **Exhibit 3**. If the firm continues to operate, the amount of losses incurred by the firm is
    A. RM10.
    B. RM36.
    C. RM55.
    D. RM65.

27. Refer to **Exhibit 3**. If the firm chooses to temporarily stop production, the amount of losses incurred by the firm is
    A. RM80.
    B. RM98.
    C. RM121.
    D. RM125.

28. Which of the following statements is correct?
    A. A competitive firm is a price maker and a monopoly is a price taker.
    B. A competitive firm is a price taker and a monopoly is a price maker.
    C. Both competitive firms and monopolies are price takers.
    D. Both competitive firms and monopolies are price makers.

29. A fundamental source of monopoly market power arises from _____.
    A. barriers to entry.
    B. perfectly elastic demand.
    C. perfectly inelastic demand.
    D. availability of "free" natural resources, such as water or air.

Continued...

30. Which of the following is *not* a reason for the existence of a monopoly?
    A. Patents
    B. Copyrights
    C. Diseconomies of scale
    D. Sole ownership of a key resource

31. When a firm operates under conditions of monopoly, its price is _____.
    A. not constrained.
    B. constrained by demand.
    C. constrained by marginal cost.
    D. constrained only by its social agenda.

32. A monopolist's average revenue is always _____.
    A. equal to marginal revenue.
    B. equal to the price of its product.
    C. less than the price of its product.
    D. greater than the price of its product.

33. For a profit-maximizing monopolist, _____.
    A. P > MR = MC.
    B. P = MR = MC.
    C. P > MR > MC.
    D. MR < MC < P.

34. Which of the following statements is true of a monopoly firm?
    A. A monopoly firm is a price taker and has no supply curve.
    B. A monopoly firm is a price maker and has no supply curve.
    C. A monopoly firm is a price maker and has an upward-sloping supply curve.
    D. A monopoly firm is a price maker and has a downward-sloping supply curve.

35. If there are many firms participating in a market, the market is either _____.
    A. an oligopoly or a cartel.
    B. an oligopoly or perfectly competitive.
    C. an oligopoly or monopolistically competitive.
    D. perfectly competitive or monopolistically competitive.

36. What do economists call a market structure in which there are many firms selling products that are similar but not identical?
    A. Monopoly
    B. Oligopoly
    C. Perfect competition
    D. Monopolistic competition

37. As a group, oligopolists would always be better off if they would act collectively _____.
    A. as a single monopolist.
    B. as a single perfectly competitive firm.
    C. in a manner that would prohibit collusive agreements.
    D. as if they were each seeking to maximize their own individual profits.

Continued...

38. In a monopolistically competitive industry, firms set price _____.
    A. equal to marginal cost since each firm is a price taker.
    B. below marginal cost since each firm is a price taker.
    C. above marginal cost since each firm is a price setter.
    D. always a fraction of marginal cost since each firm is a price setter.

39. Monopolistic competition differs from perfect competition because in monopolistically competitive markets _____.
    A. there are barriers to entry.
    B. all firms can eventually earn economic profits.
    C. each of the sellers offers a somewhat different product.
    D. strategic interactions between firms is vitally important.

40. A profit-maximizing firm in a monopolistically competitive market is characterized by which of the following?
    A. Marginal revenue exceeds average revenue.
    B. Average revenue is equal to marginal revenue.
    C. Average revenue exceeds marginal revenue.
    D. Revenue is always maximized along with profit.

SECTION B: STRUCTURED QUESTIONS (60 marks)

Instruction: Answer all questions in the answer booklet provided.

Question 1 (20 marks)

Mr. Ramasamy budgets RM50 for lunch each week. He can eat in the office cafeteria (X) for RM5 per meal, or at the nearest restaurant (Y) for RM10 per meal. His utility from each meal is listed in **Exhibit 4**.

Exhibit 4

Cafeteria Meals (X)				Restaurant Meals (Y)			
Quantity	**Total Utility**	**Marginal Utility (MU)**	**Marginal Utility / Price (MU/P)**	**Quantity**	**Total Utility**	**Marginal Utility (MU)**	**Marginal Utility / Price (MU/P)**
1	10			1	50		
2	18			2	86		
3	24			3	106		
4	28			4	122		
5	30			5	130		
6	31			6	134		

Continued...

a) Calculate the marginal utility (MU) and marginal utility per price (MU/P) for each Cafetaria Meals and Restaurant Meals.

(12 marks)

b) What combination of cafeteria and restaurant lunches will maximise his utility? Explain.

(8 marks)

Question 2 (20 marks)

Jennifer leases a farmer's farm from Christine for RM120 a day and grows papayas. She pays each worker RM100 a day to pick and pack the papayas. She leases capital at RM80 a day. **Exhibit 5** gives the daily output.

Exhibit 5

Labour (Per day)	Output (papaya Per day)
0	0
1	100
2	220
3	300
4	360
5	400
6	420
7	430

a) Calculate the total cost, average total cost and marginal cost schedule for the above daily output. (Hint: reproduce the table)

(12 marks)

b) What are the difference between economies of scale, constant return to scale and diseconomies of scale? Use the appropriate graph and explain your answer.

(8 marks)

Continued...

Question 3 (20 marks)

a) Draw a diagram to show a perfectly competitive firm earning normal profit. Explain.
(10 marks)

b) (i) Draw a diagram to show a perfectly competitive firm facing economic loss.
(ii) Under what circumstances will the firm shut down?
(10 marks)

End of Page